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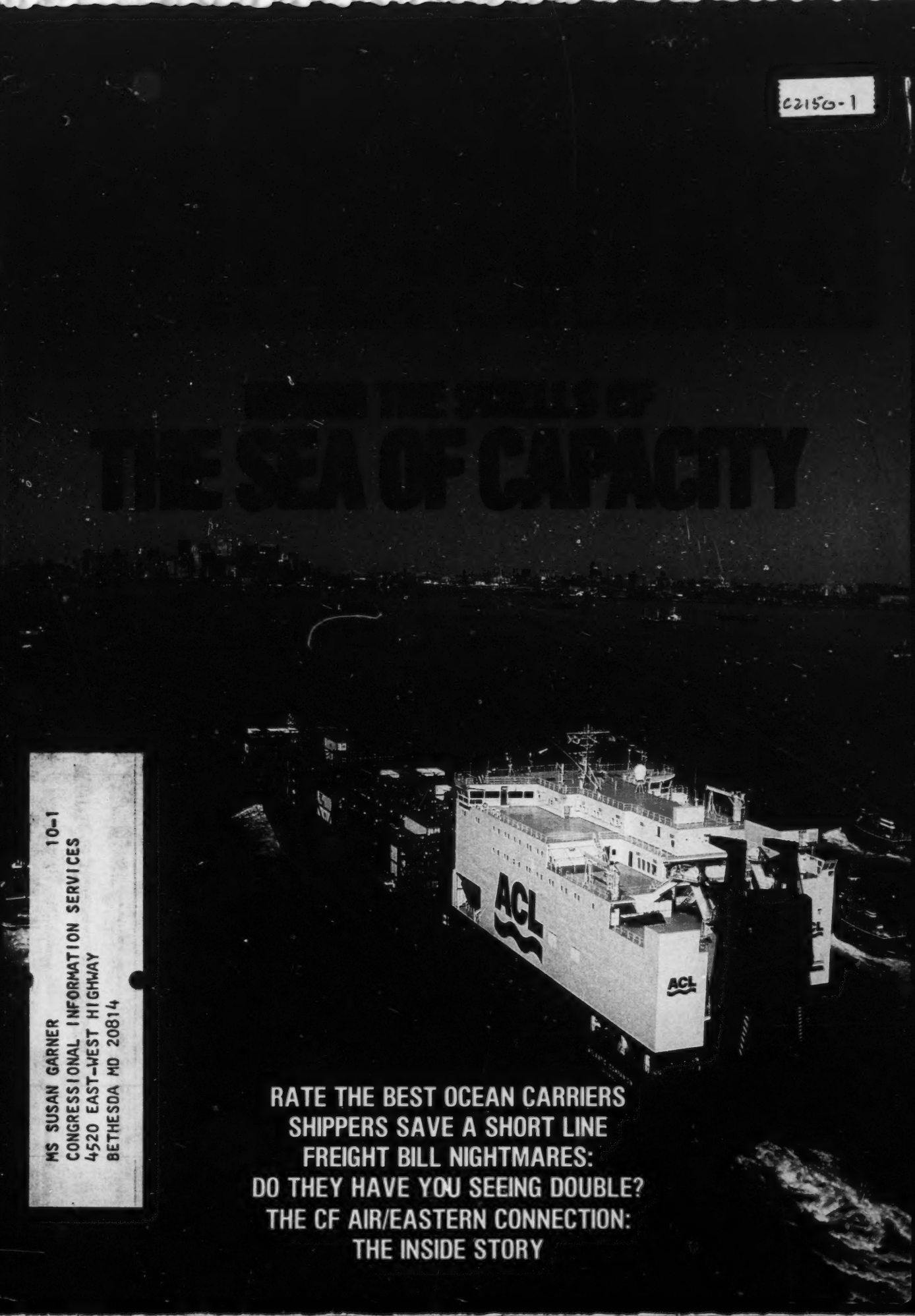
THE SEA OF CAPACITY



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RATE THE BEST OCEAN CARRIERS
SHIPPERS SAVE A SHORT LINE
FREIGHT BILL NIGHTMARES:
DO THEY HAVE YOU SEEING DOUBLE?
THE CF AIR/EASTERN CONNECTION:
THE INSIDE STORY

VOL. 84. NO. 3

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MARCH 1985

ESTABLISHED 1901

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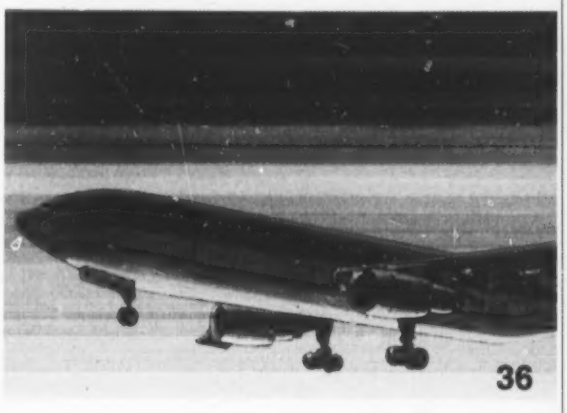

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DIALOGUE

When we asked readers to give us an idea of their experiences with overpayment problems and duplicate billings, the response spoke volumes. The return on our December Dialogue card was the biggest ever, and responses were still coming in as the issue went to press. What we've found, both through the readers' responses and a separate investigation by Contributing Editor Kurt Hoffman, is that while everybody seems to casually accept that overpayment is a problem, the portion of freight budgets consumed by overcharges is shocking. And those who feel most confident that they've got the problem licked may be setting themselves up for the biggest surprise of all. Here's what some of nearly three hundred readers had to say:

"We rely on pre-audits. Adjustments made prior to payment also make the carriers aware of problems if they are constant."**—W. Darnell, president, Tucson Traffic Service, Inc., Tucson, Ariz.**

"We first negotiate our own tariffs with carriers. Secondly, we pre-audit and advise carriers of the errors. Thirdly, we have two post-audits done."**—Forrest C. Abel, manager–trans. rates/analysis, Freightliner Corp., Portland, Ore.**

"We currently use a pre-audit system that is supplemented by us providing the auditor with copies of contracts and discount tariffs. We are exploring the use of computerized freight payment on simple billings from high-volume carriers."**—Thomas Hart, director of worldwide traffic, Burroughs Corp., Wayne, Mich.**

"All bills are pre-audited and post-audited. A new computerized accounts payable software system should also weed out the duplicate billing problem."**—T. F. Wright, traffic manager, Cessna Aircraft Co., Hutchinson, Kan.**

"I check each bill for correct classification and rates. If an error is found, I do not pay the bill until a corrected bill is received. The carrier usually responds."**—Ronald Dasent, traffic manager, Keystone Screw Corp., Willow Grove, Pa.**

"Our computer system prevents payment on a pro number if it was already entered in the same month. If we are checking older bills, we check the file by hand."**—Lynne J. Brown, traffic manager, Bradley Corp., Menomonee Falls, Wisc.**

"We match invoices with delivery copies, pre-audit and correct the charges if they're found to be incorrect. We mark the delivery copy to indicate the bill has been paid. The payment record is computerized."**—Don Davis, traffic manager, Delco Systems Operations, GMC,**

continued

QUESTION OF THE MONTH

On Friday, February 8, the long-anticipated sale of Conrail took a major step towards fulfillment, when Secretary of Transportation Elizabeth Dole announced that the Eastern railroad would be sold, pending approval by Congress, to the Norfolk Southern Corp.

Already both shippers and rail industry representatives have voiced dismay over the decision. Opponents of the sale to the Norfolk Southern say that such a deal would produce a variety of ensuing ill-effects, including reduced competition and related declines in service and price benefits, and the loss of jobs in the Northeast, where the labor outlook already compares unfavorably with other parts of the country.

How do you think the acquisition of Conrail by the NS will affect you? Are the doomsayers right about service and rate tradeoffs on the horizon, or will consolidation of the two rail systems open new opportunities? And what action should Congress take? Should they approve the sale, or are there better alternatives you'd like them to consider? Let us know how you feel about the Conrail sale, and what effect it will have on you. Send us the Dialogue card below.

DIALOGUE

- I _____approve _____disapprove of the sale of Conrail to the Norfolk Southern.
- As a result of the approved sale, service to points currently served by Conrail will: _____improve _____worsen _____remain about the same.
- As a result of the sale, freight rates to destinations currently served by Conrail will: _____increase _____decrease _____remain about the same.
- The purchase of Conrail by the NS is dangerous because it would reduce the competition between carriers and would create a new "rail giant" with little incentive to respond to shippers' needs. _____Agree _____Disagree.
- The consolidation of the two rail systems will lead to streamlined service and new opportunities for cooperation between shippers and the railroad. _____Agree _____Disagree.
- If Congress approves the sale, I _____would _____would not consider diverting freight from rail to other modes of transportation.

This is what action Congress should take and why:

_____

_____

_____

_____

_____

OPTIONAL:

_____

NAME (print) TITLE

_____

COMPANY PHONE

_____

ADDRESS

_____

CITY STATE ZIP

FIGURES IN SPEECH

(Quotes from transportation and distribution notables that caught the ears of DISTRIBUTION Editors while covering the industry meeting and seminar circuit:)

"I think the reason we have the mess we have in truck taxation is that we just don't know enough. We don't seem to know for sure whether we are a national industry or a series of fifty state industries. We certainly look like a national industry. We've got about 2,700 carriers with nationwide general commodity authority. We serve shippers who compete in world markets. But for some reason, we're not absolutely convinced that we are a national industry.**—Thomas A. Callaghan, Jr., Alliance fort Simple, Equitable and Rational Truck Taxation, to the Regional and Distribution Carriers Conference, Palm Springs, Calif.**

•

"This issue of counterfeit or will-fit parts has become a problem of monumental proportions. It is an industry problem, not just a problem for the vehicle manufacturer, but for many distributors, and certainly the customer. It is a problem that is much deeper than just counterfeiting, since many parts, legal or not, have become a major threat to highway safety."**—John B. Curcio, president, Mack Trucks, Inc., at the Parts and Service Spectacular, Fort Worth, Tex.**

Goleta, Calif.

"All freight bills are audited before payment. A flat class rate has been established, therefore errors in rating have been reduced."**—Bobby G. Griggs, traffic manager, Daisy Manufacturing Co., Rogers, Ark.**

"We pre-audit and post-audit all of our freight bills; however, this still does not prevent a lot of time wasted by filing out overcharge claims."**—Richard J. Ditrich, traffic manager, Dezurik, Sartell, Minn.**

"A pre-audit ensures correct description and rates, as well as extension of rates. A problem we have today that was unheard-of three years ago is ensuring that the proper discount is applied."**—Gary H. Holbrook, ass't. manager of transportation, Zale Corp., Irving, Tex.**

"We use a bank payment plan that screens bills for duplication, etc., combined with a pre-audit and a post-audit done by a different company."**—Myles Leblang, transportation manager, Fay's Drug Co., Liverpool, N.Y.**

"Each move is assigned a unique dispatch number by computer. Then our operations group inputs the vendor and the cost of the move. When the invoice arrives in Accounts Payable, a computerized search is made to match the dispatch number with the vendor and amount. If there is no match, research is done to find the discrepancy. Or if the bill was previously paid, the computer will give that information."**—Philip Marbach, controller, Transamerica Distribution Services, Chicago.**

"We try to negotiate simpler rates with carriers to eliminate or reduce commodity description errors."**—Tom Cravens, traffic manager, Hart Stores, Inc., Columbus, Oh.**

PAYING FOR "YOUR" MISTAKES

The greatest cause of freight overpayments is:	
Inadequate freight payment system	35%
Duplicate billing	35%
Commodity misdescription	28%
Shipper payment error	13%
Percentage of freight budget wasted on overpayment	3%
Shippers having problems with duplicate bills	80%
Shippers suspecting deliberate duplication	25%
Problems with balance-due notices from bankrupt carriers	53%
The best safeguard against overpayments is:	
Pre-audits	88%
Computerization	29%
More or better traffic people	27%
Post-audits	13%

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SECOND QUARTER

FORECAST

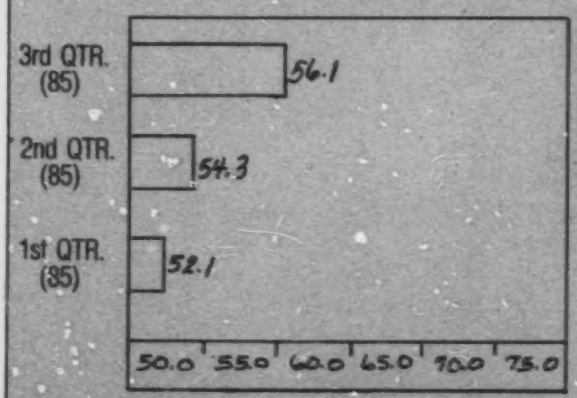
By Richard Lancioni, Ph.D.

GENERAL ECONOMIC INDICATORS

	1st QTR.	2nd QTR. FORECAST
Real GNP (trillions)	$3.8177	$3.9150
Retail Car Sales (Mil. units, annual rate)	11.1	11.1
Housing Starts (thousands of units, annual rate	1,685	1,751
Prime Rate (%)	11.5	11.0
Index of Industrial Production ('67 = 100)	166.6	166.9
Inflation Rate	3.9	3.3
Unemployment Rate	7.3	7.2
Net Exports (billions)	($78.9)	($81.5)
Corporate Profits (billions before taxes)	$225.5	$221.7

The first two quarters of 1985 will result in financial growth in the U.S. economy. Real GNP should reach $3.915 trillion dollars at the end of the second quarter. Retail car sales will climb above the 11.1 million rate for the year, and housing starts should reach 1.751 million units by June. Inflation will moderate for the first part of the year, averaging only 3.3 percent for the first two quarters. This is the lowest level in 25 years. Combined with this will be the stabilizing of the unemployment rate at the 7.2 percent level. The dark cloud on the economic horizon is the excessive federal deficit, which will reach $180 billion. Failure to reduce the deficit will compound the interest rate problem, and drive short-term rates upward. Another difficult problem is the excessively high value of the dollar, which has significantly reduced American exports and created a worrisome balance of payments deficit which will reach more than $84.4 billion by the third quarter.

PURCHASING MANAGERS COMPOSITE INDEX



The National Association of Purchasing Agents Index shows an increase in purchasing activity in the first and second quarters of 1985. The upward trend is based on lower-than-expected interest rates during the period, and expanded demand for manufactured products. Purchasing activity should grow at a moderate level during 1985 and few shortages are expected during the year. Most raw materials are in plentiful supply, and some products, such as crude oil and steel, will have moderating prices in the second and third quarters. While raw material availability will remain stable, there will still be pressure by top management to keep inventory stocks low in most firms.

SECOND QUARTER

DISTRIBUTION INDEX

	1st QTR.	2nd QTR. FORECAST
Truck Shipments	141.9	144.3
Rail Shipments	123.4	126.0
Air Shipments	130.1	135.7
Water Shipments	115.8	115.7
Warehouse Space Utilization	133.3	135.1
Inventory Valuation	113.1	112.5

Activity in the distribution industry for the first part of 1985 will mirror the activity in the overall economy. Truck shipments will increase throughout the period from 141.9 in the first quarter to 144.3 in the second. Rail shipments will also rise from 123.4 to 129.6 as more and more shippers increase their use of piggyback, and as bulk shipments increase. Air freight will rise from 130.1 to 135.7 over the same period. This growth will be due in part to the popularity of air freight among shippers and the number of new firms getting into the business and directly competing with Federal Express and Airborne. Water shipments will continue to increase, but only by a moderate amount through the second quarter. Warehouse space utilization should continue to expand and reach the 135.1 level by the end of the second quarter. Inventory valuation should moderate as the overall inflation rate in the economy falls from 113.1 to 112.5 by the end of the second quarter.

DIESEL FUEL PRICES

	1st QTR.	2nd QTR. FORECAST
Full-Serve	130.9	132.0
Self-Serve	118.1	120.0

Source: American Trucking Associations

Energy prices should remain stable for the first part of 1985 and decline in the third quarter. This drop is in part due to the decline in OPEC's official per-barrel price to $28, and the continued reduction in the spot price of crude oil on international markets. Full-serve diesel prices should reach $1.32 per gallon by the end of the second quarter, and fall to $1.30 in the third quarter. Self-serve prices will also moderate from the $1.20 level in the second quarter to $1.18 by the end of the third. This will be a good year for fleet managers, for fuel will be available and prices may be even lower by year's end.

TRANSPORTATION TONNAGE INDEXES (1977 = 100.0)

	1st QTR.	2nd QTR. FORECAST
Rail	90.845	91.847
Truck	161.100	162.300
Barge	(N/A)	(N/A)

Source: Data Resources Inc.

Freight tonnage will grow in all sectors for the first part of 1985. Rail tonnage should increase from the 90.8 level in the first quarter to 91.8 in the second. Truck tonnages will also expand, from 161.1 to 162.3 at the end of the second quarter. The continued growth in both sectors again reflects the expansion in the overall economy. While water freight data is not shown, it should continue to expand during the same period.

TRANSPORTATION COST INDEXES (1977 = 100.0)

	1st QTR.	2nd QTR. FORECAST
Rail	184.0	186.0
Truck	172.0	173.0
Barge	186.0	186.0

Source: Data Resources Inc.

The cost of moving freight will increase only moderately during the first quarter, and, in fact, remain relatively stable due to the moderation in energy and fuel prices. The rail cost index will increase from 184.0 in the first quarter to 186.0 in the second quarter. The truck costs will rise slowly from 172.0 to 173.0 during the same period. Water transportation costs will remain constant at the 186.0 level through the second quarter. The first half of 1985 will be one of the few times in the past 15 years in which distribution managers have enjoyed stable transportation costs.